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DEPARTMENT FOR AF/S AND EEB/CBA - DENNIS WINSTEAD  
COMMERCE FOR 4510/ITA/IEP/ANESA/OA

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SUBJECT: JANUARY/FEBRUARY 2009 ECONOMIC AND POLITICAL UPDATE

REF: A) LUSAKA 80  
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11. (U) SUMMARY

- Inflation Declines Slightly
- Zambian Government (GRZ) Shuts Down Chinese Coal Mine
- Luanshya Copper Mines Investors Suspend Zambia Operations
- Zambia-China Economic Sub-Zone Launched in Lusaka
- Competition in Banking Sector Intensifies
- Patriotic Front Expels "Rebel" Parliamentarians
- Movement For Multiparty Democracy Nominates President
- GRZ Prepares to Launch Rolling Voter Registration Process

Inflation Declines Slightly

12. (U) According to the Central Statistical Office (CSO), year-on-year inflation declined to 16 percent in January from its December 2008 rate of 16.6 percent. The CSO attributed the slight drop primarily to reductions in the price of corn meal, petroleum products, and local transportation costs.

GRZ Shuts Down Chinese Coal Mine

13. (U) The GRZ closed down the Chinese-owned Collum Coal Mine in Southern Province following two fatal accidents in January. During the past two years, the GRZ has suspended operations at Collum Mine multiple times for safety-related reasons, but each time the company allegedly resumed operations without the government's approval (Ref B). Ministry of Mines Chief Mining Inspector Billy Chewie told the press that four of the shafts at the mine were closed and operations would only resume after the company complies with safety standards. The GRZ has also urged the company to recruit trained personnel and put in place proper underground support structures. The company's main clients are Lafarge Cement, Konkola Copper Mines, and some companies in the Democratic Republic of Congo. Currently, Collum is the only local source of coal in the country and its closure may affect cement production and therefore the construction sector.

Luanshya Copper Mines Investors Suspend Zambia Operations

14. (U) Luanshya Copper Mines (LCM) laid off 1,740 miners after suspending operations in December 2008. The Swiss-Israeli joint venture cited low copper prices as the reason for its closure. LCM halted operations at the Chambishi Metals smelter and Baluba Copper Mine and suspended development of its USD 354 million Mulyashi Copper Mine project. LCM produced about 20,000 metric tons of copper in 2008 (about 3.5 percent of Zambia's total estimated annual copper output).

15. (SBU) The GRZ has announced that the parastatal Zambia

Consolidated Copper Mines Investment Holdings (ZCCM-IH), a 15 percent shareholder of LCM, will "manage" the mine until either the owners resume operations or other equity partner(s) are found, leading to (false) expectations that retrenched employees will be recalled to work by ZCCM. The Minister of Mines told the Ambassador, however, that the GRZ has no intention running copper mines again, which before privatization cost the GRZ approximately USD one million per day. Rather, he said, ZCCM-IH will keep the mine under "care and maintenance." The Chairman of the Chamber of Mines told Emboff that investor interest in the

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mine is weak after the government breached its development agreements b imposing windfall and other new taxes on mining companies in early 2008 (Ref A).

#### Zambia-China Economic Sub-Zone Launched in Lusaka

¶6. (U) President Banda launched a Zambia-China Economic and Trade Cooperation Zone (ZCCZ), which is intended to attract Chinese-Zambian joint ventures by offering tax relief and other benefits. The ZCCZ, which is situated a few kilometers from the Lusaka International Airport, will focus on manufacturing development. The ZCCZ is a "sub-zone" of the Multi-Facility Economic Zone (MFEZ), which former President Mwanawasa and Chinese President Hu Jintao launched in Chambeshi in 2006 and which now hosts approximately ten Chinese companies. The tax benefits of this alleged multi-million dollar investment include the removal of withholding tax on management fees and interest payments to foreign contractors and Value Added Tax exemption on manufacturing machinery, equipment, and supplies.

#### Competition in Banking Sector Intensifies

¶7. (SBU) The Central Bank has issued operating licenses to Eco Bank of Togo and First National Bank of South Africa. Central Bank Governor Caleb Fundanga said that the arrival of two banks suggests that the Zambian financial sector has not been directly affected by the global economic crisis. He added that most banks in Zambia are adequately capitalized and the inter-bank market continues to operate smoothly.

Once operational, this will bring the number of commercial banks in Zambia to 16. (Comment: Fundanga may be correct in his assertion about the health of Zambia's banking sector. One banking executive described 2008 to Ambassador as his bank's most profitable year in Zambia. He projected, however, that although the global economic crisis will not constrain the liquidity of Zambia's financial sector, lending may decrease in 2009 due to risk mitigation. Another financial institution, Finance Bank, intends to move forward with its plans to expand to the Democratic Republic of Congo, after reassuring Credit Suisse, which owns 40 percent of its shares. End Comment.)

#### Patriotic Front Expels "Rebel" Parliamentarians

¶8. (U) The Patriotic Front (PF) expelled 16 "rebel" Members of Parliament from the party, following Lusaka High Court judge Gregory Phiri's decision to dismiss an interim injunction, which he granted to the MPs in January. The parliamentarians have appealed this decision to the Supreme Court. In the interim, and until a Supreme Court decision has been rendered, the Speaker of Parliament will continue to recognize the 16 parliamentarians. The dispute relates to the parliamentarians' participation in the National Constitutional Conference (NCC), despite the party's boycott of the NCC process, on the basis that it is a waste of public funds. If the Supreme Court upholds the High Court's ruling, the Speaker will vacate these seats, and the Electoral Commission of Zambia (ECZ) will call for by-elections in 16 constituencies.

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GRZ legal advisors have suggested to Emboff that the GRZ is loath to hold by-elections, which would be both costly and time-consuming to government.

#### Movement for Multiparty Democracy (MMD) Nominates President

¶9. (U) The MMD's National Executive Committee (NEC) met on February 7 to ratify the appointment of President Rupiah Banda as Acting MMD

President. The appointment places President Banda as a front runner for the party's nomination as MMD President at the party's national convention scheduled for 2010, and for nomination as the party's presidential candidate in the presidential elections slated for 2011.

#### GRZ Prepares to Launch Rolling Voter Registration

¶10. (U) The Electoral Commission of Zambia (ECZ) Chairperson, Judge Florence Mumba, announced that the ECZ will update its voter rolls by launching a continuous voter registration process as soon as Parliament approves the 2008 national budget. For many years now, civil society organizations have been expressing concern about the failure by ECZ to implement continuous voter registration despite a law requiring it.

Earlier in the month, PF President Michael Sata instructed his attorneys to legally compel ECZ to start the registration process. Once implemented, the registration process will expand the voter rolls to include all those who turned 18 after the last voter registration exercise in December 2005 and who were disenfranchised in the 2008 presidential by-election.

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